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DRAFT REPORT OF THE TRADE AND DEVELOPMENT BOARD ON THE FIRST PART OF ITS THIRTY-EIGHTH SESSION

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INTRODUCTION

1. In his opening statement, the incoming President, Mr. Thomas Ogada (Kenya), said that the current session of the Trade and Development Board was taking place at a time when the world was undergoing sweeping political, economic and technological changes - changes which would have far-reaching implications for the future of the global economy and of international economic relations. They included the recent war in the Persian Gulf, the continued transformation and upheaval in the Central and Eastern European countries, and the acceleration of the movement towards the formation of major regional economic blocs in Europe, North America, Asia, Africa and South America. The Board was mandated to evaluate such changes which impinged on issues of international trade and development as a whole. Among the reports before the Board, he observed that the Trade and Development Report, 1991 attempted to distil and review the recent trends in international trade and development, and it contained some interesting and challenging analysis and policy proposals regarding the interdependence of economic issues and debt.

2. The main theme of interdependence and debt deserved priority attention on the part of the international community. The growing interdependence between countries, sectors and problems was reflected in the growing complexity of international economic relations. Enhanced international coordination and cooperation would be indispensable for managing this growing interdependency so that it could find positive expression in terms of complementarities, solidarity and cooperation rather than in confrontations and conflicts. This would require, among other things, the effective integration of developing countries into the management of the global economy and intensified efforts by debtor and creditor countries to find a lasting solution to the international debt crisis, particularly in developing countries.

3. The current session was also an occasion to reflect on and, as necessary, to provide guidance for further political and substantive work in a number of important areas in the field of trade and development such as "sustainable development" and the "financing of South-South trade". Sustainable development was a new phenomenon whose multifaceted aspects entailed an integrated approach to the problems of environmental issues and international trade, and of poverty eradication. He therefore hoped that this session would provide an opportunity to reaffirm UNCTAD's role in the field of sustainable development.

4. As regards South-South trade financing, he hoped that, drawing inspiration from the in-depth and detailed documentation prepared by the UNCTAD secretariat, the Board could provide directions for further substantive work and political progress in this area, which was crucial to trade and economic cooperation among developing countries. UNCTAD was a unique forum in which the North and South were brought together to discuss in an open manner the problems of economic development and international trade. He therefore urged the participants to be true to the mandate of UNCTAD and to act in a spirit of compromise and cooperation.

5. The Secretary-General of UNCTAD focused on a number of conclusions flowing from the Trade and Development Report 1991. He said that a number of exceptional events and rapid changes were taking place at a time when many economies were particularly vulnerable. The increased interdependence in the world economy, moreover, had tightened the constraints on autonomous policy-making in all countries and heightened the vulnerability of developing countries to shifts in the overall stance of macroeconomic policies in major OECD countries.

6. Future world economic stability and growth required improved management of interdependence. This meant that the national policies of countries having great weight in the world economy should be effectively coordinated; that multilateral surveillance should extend beyond disequilibria affecting the major developed countries to encompass policies in a number of important areas; and that developing countries should be able to participate effectively in decision-making concerning the evolution and functioning of the international monetary and financial systems. Furthermore, international cooperation must be strengthened to improve the structures, systems and arrangements underpinning international economic relations so as to provide stronger support for the development process as well as for macroeconomic management and structural adjustment.

7. The dramatic political and economic developments of the past few years, together with the recent upsurge in ecological awareness, had lent a new sense of urgency to these priorities. There were some indications, however, that the potential of interdependence as a consistent vehicle of growth and development might be gaining wider and deeper recognition.

8. The debt crisis was far from being resolved. There had been some welcome improvements on the commercial debt front, but the incidence was uneven and the picture remained particularly unfavourable for sub-Saharan Africa. The debt and debt-service reductions achieved by recent debt renegotiations had varied considerably from case to case. Unless the Brady initiative was strengthened, the debt reduction that would ensue would be much less than what was required to restore growth and external financial viability. The debt negotiation process needed to be anchored on authoritative estimates of the country's debt reduction and cash flow needs. National laws and regulations in creditor countries should be directed more effectively towards achieving adequate levels of debt-service reduction, and the multilateral financial institutions should be enabled to increase their financial support for debt reductions without reducing their normal lending.

9. In the area of official bilateral debt, the 50 per cent debt reductions granted by Paris Club creditors to Poland and Egypt advanced substantially the international debt strategy by introducing the concept of debt reduction for middle-income countries, and by applying the reduction to the entire stock of debt. But sight must not be lost of the needs of other middle-income countries with heavy burdens of such debt. If it was to foster adjustment and growth, the debt strategy must be governed by objective economic criteria, rather than political preferences or narrow financial concerns.

10. With regard to the low-income debtors, the Toronto terms marked constructive forward movement in the relief of non-concessional official debt, but they fell short of what was warranted by the debt-servicing capacity of such countries. The proposals advanced recently by the United Kingdom and by the Netherlands for much bigger reductions of debt and debt-service deserved serious consideration. Eligibility criteria in the Paris Club should, moreover, be widened to include all heavily indebted countries that were IDA recipients.

11. The issue of multilateral debt had also become a matter of concern for many debtor countries. Although measures had been taken by multilateral institutions to alleviate the debt-servicing burden and to help clear the arrears, further measures were needed to deal with this problem, while safeguarding the soundness of creditor institutions.

12. Concern had been voiced that global savings would not be sufficient to meet demands for external financing from developing and Central and

East European countries. For reasons amply explained in the Trade and Development Report, serious grounds existed for doubting whether there was, however, in any meaningful sense, a global shortage of savings and whether any such shortage was in fact at the root of the financing difficulties faced by developing countries. Financial flows to these countries were constrained by country-specific situations, such as perceptions regarding creditworthiness: an improvement in the level of global savings by itself would not change those factors. Furthermore, it was questionable whether policies to increase savings, which would in fact decrease expenditure, were appropriate during a period of recession.

13. In addition, long-term interest rates did not reflect a global inadequacy of savings, but were rather an effect of increased volatility in the value of long-term financial assets. If banking systems in industrial countries were to prove unable to provide adequate credit to business and to trade in an upswing, then the availability of finance would indeed be a problem. However, that problem would not emanate from the aggregate shortage of savings, but from institutional weaknesses of a large part of the financial system. One way of tackling this problem, in line with a recent Japanese proposal, would be to renew SDR allocations and link them to development finance.

14. The financing difficulties facing developing and other countries, should be approached by focusing policy action on the specific financial conditions facing borrowers, so as to ensure better access to existing savings. Even with better access to external finance, however, developing countries would need to reform their own financial systems considerably. The thrust of current reform efforts was directed at raising and deregulating interest rates, eliminating government direction of credit, and introducing or developing capital markets. This course of policy had its logic but it could easily be pushed too far. Experience had shown that high interest rates did not boost savings and also showed the dangers of liberalizing finance in the absence of macroeconomic stability. As for equity markets, they were not the only, or necessarily the best, option. Other models, such as were to be found in Germany and Japan, in which the banking system played a much greater role in financing business could be even more instructive for developing countries.

15. Policies regarding the public sector, too, had a major role to play in resource mobilization. Considerable scope often existed both for raising public sector savings and for improving the efficiency of public sector investment. In many developing countries, economic revival required a rise in the level of public sector investment, something which called for fiscal reform, the key to which was greater equity and efficiency in taxation.

16. In recent years, there had also been growing recognition of the need to reform State economic enterprises. Privatization was a policy option being actively pursued in many developing countries, often because of fiscal pressure. Its rationale should, however, be long-term efficiency rather than the government's cash flow, and should be accompanied by a careful assessment of the comparative advantages of all the options, bearing in mind the key role of competition as a determinant of efficiency.

17. Addressing other agenda items, he said that ecologically sound and sustainable development represented a vast field for national and international endeavour in which a determined attack on poverty must be central. The secretariat report (TD/B/1304) represented only a first response to the Board's request for an analysis of this issue. The report showed that further exploration was needed of many conceptual and policy issues including technology, resource management and the roles of the polluter-pays and user-pays principles. The secretariat was continuing to study these questions.

18. In response to a request from the General Assembly of the United Nations and in the context of the continuing close cooperation with the secretariat of UNCED, the UNCTAD secretariat had submitted a comprehensive analytical study on the present situation and future trends regarding the relation between environmental issues and international trade to the third session of the UNCED Preparatory Committee.

19. Referring to South-South trade, he said that even where market access was assured, trade could not take root without trade financing on competitive and affordable terms. Adequate longer-term credit facilities to meet this need were lacking in many developing countries. The Board had before it a study on the problems of trade financing in developing countries and on the feasibility of establishing a commercially viable interregional mechanism for financing South-South trade in non-traditional exports (TD/B/1300 and Corr.1). An Ad Hoc Group of Experts convened to examine the study had agreed that the developing countries should be encouraged to improve the efficacy of existing

trade financing mechanisms, but they had also found merit in the idea of establishing a commercially-based interregional facility having a broad membership.

20. He referred to two other secretariat reports. The first (TD/B/1301 and Add.1) contained a brief assessment of the current transit-transport situation in land-locked developing countries and outlined the further remedial action that was required. It also carried the replies received from member States, international bodies and intergovernmental organizations regarding their assistance programmes, which clearly indicated that the level of external assistance was still far from adequate in relation to requirements. The other report (TD/B/1305) examined recent economic developments in the occupied Palestinian territory. The magnitude and nature of the problem pointed to the need for an intensified effort at all levels to revive the Palestinian economy. In this regard the political process currently under way in the Middle East was a most welcome development and positive results could not but improve the prospects for the welfare of the Palestinian people. The UNCTAD secretariat had also undertaken a comprehensive intersectoral study of prospects for the Palestinian economy.

21. On UNCTAD VIII, he stressed the importance of an early beginning to full scale substantive intergovernmental preparatory work since any further delays would make it extremely difficult for the process to culminate in a negotiated text which would be submitted to the Conference, as had been agreed.

22. The spokesman for the Group of 77 (Sudan) observed that the momentous events now taking place, both internationally and institutionally, were a challenge to individual countries and to the world community. For its part, the Group of 77 had been painstakingly preparing for UNCTAD VIII. The three regional components of the Group of 77 had adopted their preparatory documents for the forthcoming Ministerial Meeting of the Group of 77, to be held in the Islamic Republic of Iran. The results already indicated the direction and framework that the developing countries wished to see for UNCTAD VIII.

23. The Group of 77 wished to underline the crucial nature of the themes on the Board's agenda and their vital contribution to enhancing a timely global approach to international development. While all agreed that interdependence was a reality, there seemed to be insufficient institutional mobilization of the positive factors in addressing the forces of this reality. These issues were not confined to UNCTAD but they interdependently featurerd in all

international and multilateral forums, be it in the realm of environment and development and how to strike a balance between these two faces of the same coin, as well as in GATT and the frustrations of all trading partners over the negotiations in the Uruguay Round. The fact remained that the Board was the only forum where an in-depth analysis was being made of interdependence. The Group of 77 would be making detailed statements on the agenda items related to interdependence and to debt.

24. The Group of 77 continued to believe that UNCTAD and, in particular, the Trade and Development Board provided the effective forum for shaping and revitalizing a meaningful North-South dialogue, and his Group was ready and determined to enter into a dialogue on the ways and means of strengthening the institutional effectiveness of UNCTAD. Furthermore, his Group was looking forward to UNCTAD VIII as an occasion for cooperation and not confrontation between the North and the South. The issues on the Conference agenda should be approached with vision, dedication and open minds. Confrontation was to be found, if anywhere, in confronting the issues and not in confronting each other as groups. Hence the need for all to confront poverty in order to eradicate it. And all countries had to confront, according to their weight and capabilities, the risks of a distorted trade system. His Group was, therefore, ready to start the dialogue as from this Board with the aim of reaching by UNCTAD VIII a meaningful consensus on the future management of the world economy and the institutional framework that could effectively contribute to that end.

25. Turning to agenda item 8 (a) on ECDC and the question of the assessment of the feasibility of a trade-financing facility among developing countries, he noted that this was the first time that such detailed studies on trade financing, of the highest substantive and technical calibre, had come before the Board and indeed before any decision-making intergovernmental organ. The seriousness and thoroughness of the secretariat's response reflected no doubt the critical importance of this issue to all developing countries and indeed to the world economy at large. Time and again, experience had shown that monetary and financial obstacles to trade were among the most difficult to remove. The Group of 77 had recognized the importance of this issue in its various meetings and declarations since the Caracas Programme of Action of 1981. This was an endeavour which needed the active participation and collaboration of the developed countries, especially at this time when the

developing countries' development was constrained by foreign-exchange scarcity. His Group noted with approval that the study reached the conclusion, shared by experts, that the establishment of a trade-financing facility was feasible and that, if widely participated in, it would be viable on a commercial basis.

26. This was a timely proposal, which opened the door for private and official participation, for setting up a mechanism based on market criteria which would help the developing countries to further their participation in world trade and push forward their trade liberalization and structural reforms. The proposal was attuned to the spirit of the times. It was so well founded that a distinguished Group of Experts, composed of 20 top-level executives and specialists from all over the world, convened by the Secretary-General of UNCTAD in July 1991, had unanimously found it to be realistic, technically sound and commercially viable. Moreover, the Experts of the Group of 77, meeting in New York (4-9 August 1991) to report on the implementation of the Caracas Programme of Action, had examined these studies and come to the same conclusions regarding the soundness and technical feasibility of the proposed facility.

27. He therefore urged the Board to launch the negotiations on this issue. The Group of 77 accorded the results of such discussions the highest priority. A positive outcome would be a great achievement for this session and indeed for the Board for years to come.

28. Finally, he called on participants not to forget their obligations to the least developed countries, particularly the need to review the implementation of the Paris Programme of Action for the 1990s and the role of UNCTAD in the implementation of this Programme, in the light of the decision adopted by the Board at its thirty-seventh session.

29. The representative of China pointed to the profound economic and political transformations which had led to changes and uncertainties in international economic relations. These included such factors as the diversion of financial flows, the growth of the developed countries' economic groupings and protectionism, the decline of commodity prices, deteriorating terms of trade, the foreign debt burden, the economic recession of the West, and the Gulf war. In the face of an unfavourable external environment, the developing countries' own efforts towards adjustment and reform had borne meagre results. He therefore urged the developed countries to honour their

commitment to halt protectionism and to reduce non-tariff barriers. They should also monitor and examine their regional grouping process and eliminate its closed-door nature and exclusiveness, thus creating favourable conditions for the developing countries to expand their exports.

30. He observed that in the Uruguay Round the negotiations on issues of concern to the developing countries, such as access to markets and textiles, were lagging far behind those which were of concern to the developed countries, such as the so-called "new issues". Failure to achieve a substantial and balanced outcome in the Uruguay Round would have serious consequences for the multilateral trading system and for the trade of the developing countries. He therefore hoped that the negotiations would result in a package of substantial and balanced agreements which fully reflected the interests of developing countries and was acceptable to all parties.

31. With regard to the debt problem, he said that the current debt strategy had considerable limitations. The fundamental solution to the debt problem lay in promoting the economic growth of the debtor countries so as to enhance their debt-service capability. This responsibility should be shared by the creditor countries, the debtor countries, commercial banks and international financial institutions. The developed countries should adopt effective measures to increase financial flows to the developing countries and should ensure that the present debt strategy became a growth-oriented strategy.

32. He noted that there was a growing awareness that the world economy was an integrated one. It was therefore necessary to ensure the full participation of the developing countries in international economic decision-making and to give preferential consideration to the interests of the developing countries in the areas of trade, commodities, finance and debt. Attempts by a few industrialized powers to impose on other countries certain value concepts and development models were both harmful and unworkable. Each country should adopt appropriate policies in line with its own socio-economic system, development path and national conditions, and should participate in international economic cooperation on an equal footing.

33. The evolution of East-West relations and the participation of the Soviet Union and East European countries in the world economic system should enable new horizons to be opened up for expanding international economic cooperation favourable to the development of the developing countries.

However, there were now signs that the world economy and the economic development of the developing countries were facing serious challenges. UNCTAD VIII would provide a good opportunity for revitalizing the world economy and the economy of the developing countries in particular. The Conference should adopt effective practical policy measures to promote the economic growth of the developing countries and to achieve the sustained and steady development of the world economy. He emphasized that the discussions at UNCTAD VIII should be based only on the provisional agenda already approved and on the mandate given by the General Assembly.

34. Finally, he stated that in the past 10 years China had pursued a policy of reform and opening up to the outside world, in line with its actual conditions. Despite problems of one kind or another, in general China's economy was growing steadily and vigorously. China would continue to pursue this policy in order to reach new heights of economic and social development before the end of the century.

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